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DEPARTMENT PASS TO USTR FOR BILL JACKSON

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SUBJECT: UGANDA: FEBRUARY ECONOMIC REVIEW

REF: KAMPALA 000160

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¶1. Summary: Phenix textiles shipped its first consignment of 100 percent Ugandan made organic cotton t-shirts to the United States. Uganda has been designated to lead African countries in the next round of World Trade Organization (WTO) negotiations. The Gates Foundation is providing over USD 15 million to establish microfinance banks in five African countries, including Uganda. Energy Minister Migereko is seeking investors to develop 48 small hydro power projects across Uganda to diversify its power generation base. The Energy Ministry is also distributing 800,000 free energy efficient bulbs in an effort to save 30 megawatts of power. The IMF reports that Uganda's transportation infrastructure is among the worst in Africa and hinders future economic growth. New legislation containing whistleblower protections have been drafted and will soon be before Parliament in an effort to combat corruption. The Millennium Challenge Corporation (MCC) has approved funding for a GOU program to fight corruption over the next two years. End Summary.

Trade/AGOA

¶2. Phenix Logistics, a textile firm, exported to the United States its first consignment of 50,000 organic cotton t-shirts. The company held a celebration on February 23 attended by President Museveni and the U.S. Ambassador. The clothing is the first that is 100 percent Ugandan made to be sold in the U.S. market benefiting under the African Growth and Opportunity Act (AGOA). Phenix is anticipating additional orders from the purchaser Edun, a socially conscious clothing brand owned by U2 rock band lead singer Bono.

¶3. Uganda was chosen to lead the African countries in the next round of World Trade Organization (WTO) negotiations. The WTO Director General, Pascal Lammy, announced on February 3 that Uganda was selected because of political and economic stability and its open policy on trade policy. Uganda will be responsible for organizing all African positions in the WTO and seeking consensus between African members and the WTO for the next round of talks. The talks are likely to focus on removal of domestic farm subsidies and export subsidies by developed countries as well as increased access to their markets for developing countries.

Business Development/Investment

¶4. The Gates Foundation has awarded USD 15.4 million to Opportunity International to establish commercial microfinance banks in Africa. The five-year program in the Democratic Republic of Congo, Kenya, Rwanda, and Uganda will also expand on existing operations in Ghana. The Opportunity bank in Uganda hopes to open before the end of 2007.

Energy/Infrastructure

¶5. The Ministry of Energy, Daudi Migereko, has announced a tender to develop 48 small hydropower projects around Uganda to improve rural electrification. Some sites already have adequate feasibility studies completed and are available for competitive bidding. Hydropower plants with a capacity below 10 megawatts can be owned by investors in perpetuity. The Ministry will work with investors to develop a Purchasing Power Agreement and the necessary licenses after water permits and environmental assessment studies have been completed. Less than 8 percent of Uganda is on the national grid. The poor quality of transmission lines causes a significant amount of power to be lost. Power bleeds off from lines that are too small. Also lines are frequently vandalized by thieves stealing cable for resale. Uganda is seeking to develop smaller regional power generation projects (hydro and thermal generators) that would support the surrounding community.

¶6. In an effort to reduce power demand in peak hours, the Ministry of Energy is distributing 800,000 free energy efficient bulbs. The ministry hopes the move will save 30 megawatts of power. According to State Minister for Energy, Simon D'Ujanga, the power distribution entity Umeme will be responsible for allocating the bulbs. Umeme will trade its customers three of the energy efficient bulbs for three of their regular incandescent bulbs. The incandescent bulbs will then be destroyed. In addition, the GOU removed a 25 percent import duty and an

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18 percent value added tax on energy saving bulbs of 20 watts and below. The GOU anticipates lower priced energy efficient bulbs will increase their use by consumers.

¶7. The International Monetary Fund has released a 2007 report taking stock of the Ugandan economy. The report stated that Uganda's roads, railroads and other infrastructure are "among the worst in Africa" and were insufficient to support future economic growth. The report also states that Uganda needs to strengthen its policies to combat corruption as well the "government's willingness to take on difficult (corruption) cases."

¶8. Tower Resources, based in the U.K., has secured a license to explore for oil just north of the parcels that yielded oil discoveries for Tullow Oil (U.K.) on the shores of Lake Albert. Tower recently merged with Neptune Petroleum (U.K.), which holds several licenses for oil exploration in Uganda, but has yet to make a discovery. Tower also owns two exploration projects in Namibia and hopes to begin drilling in Uganda in 2008.

Anti-Corruption/Intellectual Rights Property Protection

¶9. The Ugandan Cabinet has approved a new draft legislation which would provide whistleblower protection to individuals who report instances of fraud and corruption. The legislation still has to be approved by the Parliament to become law. Uganda will also need to take steps to ensure the law is implemented.

¶10. The Millennium Challenge Corporation (MCC) has approved funding for a GOU program to fight corruption. The USD 10.4 million Threshold Country Program (TCP) will provide technical assistance, training, and equipment to GOU anti-corruption agencies and civil society organizations over two years. The United States Agency for International Development will

oversee implementation of Uganda's Threshold Program on
behalf of the MCC.
BROWNING